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"ANALYSIS OF ODA EFFECTIVENESS ON POOR ECONOMIES: EVIDENCES FROM SOMALIA, BOTSWANA AND THE COUNTRIES OF THE MARSHALL PLAN"

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Abstract

Negli ultimi sessant'anni, le politiche di aiuto allo sviluppo economico dei paesi poveri hanno avuto come base fondante l'Official Development Assistance (ODA), una forma di sostegno principalmente monetario offerta dai paesi membri della Development Assistance Committee (DAC) dell'OECD, veicolato da agenzie per lo sviluppo o come supporto diretto al budget nazionale. Forte dell'attuale crisi economica, della necessità di razionalizzare gli investimenti pubblici e di risultati spesso contrastanti ed inconcludenti delle politiche umanitarie, oggi una buona parte dell'economia accademica e governativa si interroga sulla loro reale efficacia nel portare crescita e alleviamento della povertà nelle economie più povere.

Nonostante l'incremento del volume di ODA nell'ultimo ventennio, rallentatosi solo dal 2009, gli studiosi di Economia dello Sviluppo sono divisi riguardo la loro reale efficacia: alcuni, tra cui Burnside and Dollar (2000), ne teorizzano un effetto positivo condizionato alle politiche economiche, all'apertura del mercato ed all'efficienza fiscale. Altri, tra i quali Easterly e Moyo, arrivano a negarne ogni utilità ed, anzi, accusano l'ODA di agire da deterrente alla crescita duratura di queste economie, fomentandone la corruzione, lo spreco e la dipendenza economica. Per queste argomentazioni, a cui fanno seguito risultati empirici spesso contrastanti, Mosley (1987) definisce l'ODA un Micro-Macro Paradosso, poiché casi locali di successo non permettono di affermare in modo assoluto l'efficacia di una politica macroeconomica basata sugli aiuti sovrani. Posso esserne infatti delineate numerose criticità strutturali: la loro erogazione secondo indicatori economici arbitrari e facilmente manipolabili; gli effetti potenzialmente deleteri sulla competitività dell'economia (si parla in tal senso di Resource Curse); le motivazioni strategiche dei donatori; un approccio da alcuni ritenuto sbagliato e con obiettivi troppo ambiziosi; le specificità legate al tipo di donatore o destinatario; gli effetti deleteri del Tied Aid; il rischio di fomentare il conflitto sociale e politico; l'evidenza di una diminuzione della contendibilità politica e di una crescita della corruzione; lo sperpero di tali risorse.

A fianco di tali effetti collaterali, si possono individuare anche imperfezioni nel modo in cui l'efficacia dell'ODA viene matematizzata e misurata nella letteratura economica: il rischio che gli aiuti allo sviluppo vengano misurati attraverso una variabile endogena al modello econometrico, non catturandone l'esatta causalità sulla crescita economica; la scarsa attenzione spesso dedicata alla scelta delle varabili, ed in caso di dati empirici alla scelta dei campioni; spesso, infine, non viene riconosciuto nei modelli il ruolo cruciale delle istituzioni e le politiche adottate dal paese ricevente gli aiuti.

Importante è però, a mio parere, non focalizzarsi solo sulla capacità dell'ODA di accrescere il PIL delle economie destinatarie, ma invece estendere l'analisi ad un più ampio concetto di sviluppo, che comprenda anche l'aiuto alla riduzione della povertà (in estensione e profondità), la qualità istituzionale, il benessere soggettivo, l'accesso alle risorse fondamentali per citarne alcuni: solo in questo modo è possibile dare un giudizio consapevole. Per questo motivo, diventa sempre più importante adottare una politica di sviluppo integrata, che agli aiuti finanziari affianchi investimenti in altri potenziali fattori di crescita, quali il supporto ad buon governo, l'adozione di buone policies, il riconoscimento dell'autonomia dei paesi destinatari nell'autodeterminazione del percorso di sviluppo, ma al tempo stesso la definizione di condizioni da rispettare.

Analizzando i casi del Botswana, della Somalia e del Piano Marshall, che ci offrono spaccati molto diversi, risulta quindi che la fotografia sull'efficacia dell'ODA presenta ben più sfumature di quante ne potremmo immaginare. Accantonando le risposte facili, gli esempi e le riflessioni sopra citati ci offrono numerosi spunti per valutare ed, in parte, riprogettare gli aiuti sovrani allo sviluppo, affiancandoli ad altre forme innovative ed emergenti di sostegno alla crescita economica, consapevoli che non esiste un'unica ricetta per la crescita ma diversi percorsi da esplorare.

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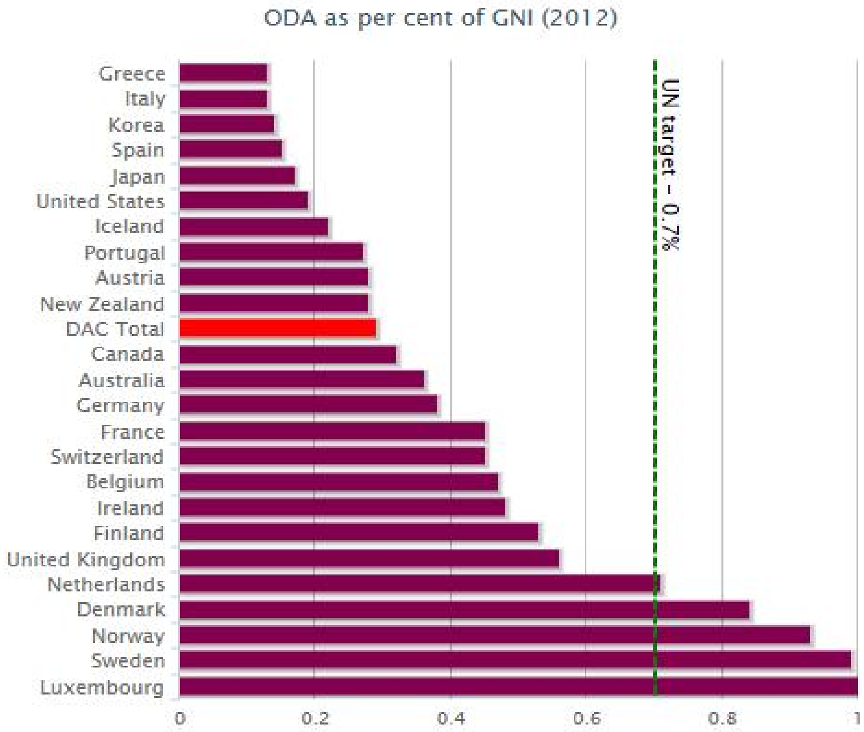
Over the last sixty years, Foreign Aid has been considered the most effective strategy in alleviating poverty in the Least Developed Countries (LDC). In this timeframe, delivery channels, modality and aid strategies have evolved, under guidelines given by major international institutions: United Nations, the International Monetary Fund, the World Bank. Still, the poorest part of the world suffers from hardships and is lagging behind in wealth and living conditions, raising questions about the real utility of foreign aid. In this paper I want to investigate the effectiveness of Official Development Assistance (ODA) in increasing economic growth in recipient countries.

1. General overview on Official Development Aid

Generally, Foreign Aid can be distinguished between Humanitarian Aid, targeted on crisis interventions, with a short term horizon and primarily consisting on medicines, food and logistics, and Development Aid, aiming at building longer-term development and consisting from its institutional foundation by in-kind aid (consisting of specific goods and equipments) and financial aid. Within the latter category, we take into consideration Official Development Assistance, which is the devolution of a country's budget share to support developing countries, differently from Official Assistance, addressed to richer countries, and from Private Voluntary Assistance, made of individuals' and NGO donations (World Bank).
ODA, as defined by the World Bank, is performed by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC and addressed to countries and territories in the DAC list of ODA recipients (World Bank).
Traditionally, such aid consisted of financial support, but official donors have recently engaged also in innovative and more proactive forms of ODA, by providing technical expertise and advice, or even training local technicians to transfer professional knowledge. During the years, DAC has continuously refined the definition of ODA reporting rules, in order to guarantee a common and consistent definition of what can be considered within such wide category. The boundary of ODA today include military aid, peacekeeping, some kind of cultural programs which contribute to build human capital and even nuclear energy, if used for civilian purposes (OECD.org).

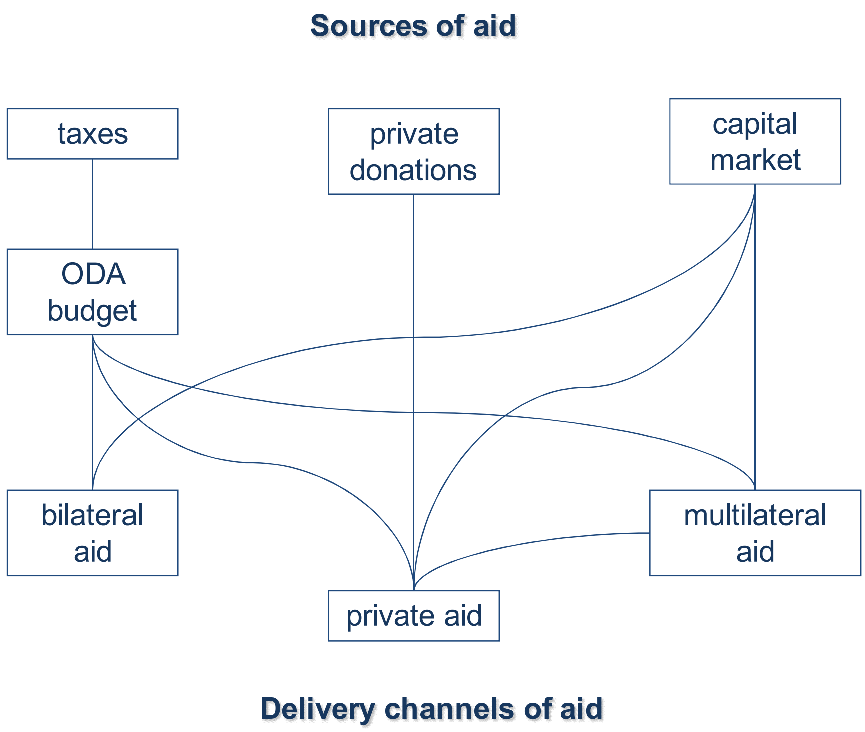
The main sources of ODA are single ODA budgets allocated by each donor country. OECD has assessed in 1970, and repeatedly endorsed later, a minimum level of ODA/GNI (i.e. gross national income) at 0.7%; although almost all DAC members (with exception of Switzerland

and USA) accepted the rate, the average nowadays is still around 0.3%, with northern European countries performing better than others (OECD.org).



Source: OECD-DAC (2012)

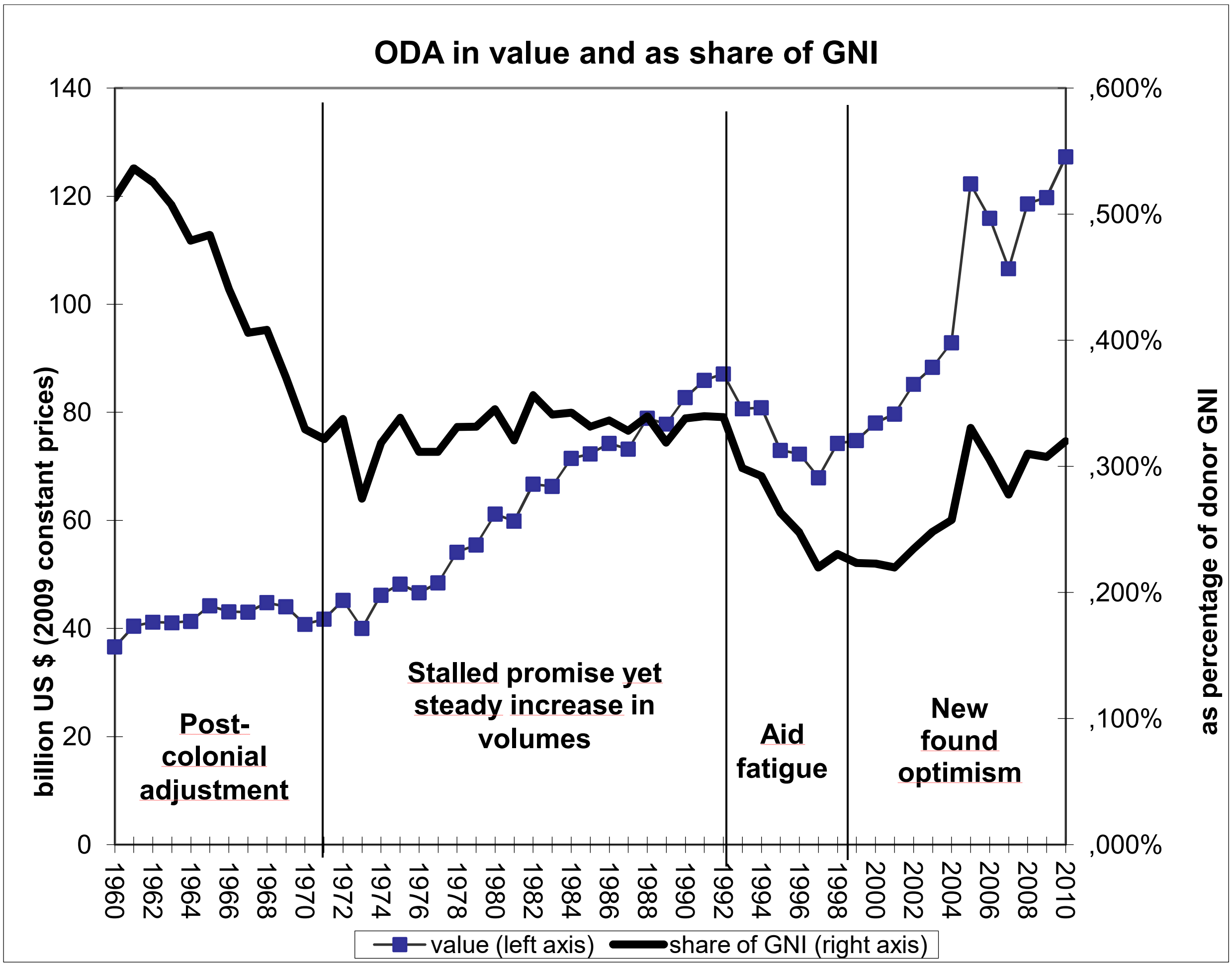
ODA can be delivered through bilateral or multilateral aid. The former, consisting in a direct flow donor-recipient country, in 2014 still made 60% of total ODA from DAC countries, with approximately 95 out of 137 billion $ (OECD QWIDS, 2016). The latter, wherein aid flows from donor countries to international multilateral agencies which convey it to receiving countries, represented the remaining 40%. A minimal part of ODA flow, around 2 billion $ in 2014, is finally delivered to recipients trough support of private donor (OECD QUIDS, 2016).



Source: OECD

1.1. Size of foreign aid

As shown below, ODA has been steady in the sixties, during the period of post- colonial adjustment, and rose up from the 70s, gaining interest of economists and governments. Between 1992-1996, the so-called "aid fatigue", it collapsed, to take again the growth track from 1996 and later with Millennium Development Goals. A new season of re-found optimism has begun, with participation of emerging Asian economies as donors (OECD-DAC, 2016).



Source: OECD-DAC (2014) available at http://stats.oecd.org/qwids

1.2. The path of aid debate

We can identify four generations of studies on the relationship between aid, growth and development (Arndt, Jones, Tarp, 2010). The first, between 1960s and 1980s, based its studies on the simple growth model by Harrod- Domar and the assumption that investment in physical capital linearly produces growth, making it easy to define the aid needed to hit a target. The second, between 1980s and 1990s, focused on same themes and led to encouraging results of aid impact. The main theory among these is "Micro Macro Paradox" by Mosley (1987), arguing that in spite of local positive results, there is no macro-level proof of effectiveness of aid on growth. Other economists, such as Easterly, strengthened the skepticism on physical capital investment and widened the spectrum of factors to be considered: good policies incentives, general policy environment, state of economy and price competitiveness. The problem of endogeneity of aid also emerged, complicating the analysis: that is, aid level is not determined out of the growth model, but is rather an effect, so that poor countries receive more aid because of their poor performances, while richer countries are

destined with lower aid levels. From the 1990s, a third generation of studies stepped in, using panel data and a range of more sophisticated econometrical tools. They expanded upon aid endogeneity and supposed a non-linear relationship with growth, as suggested by Burnside and Dollar's cornestone (2000). Others argued that results were not robust and did not hold, and extended the dataset size (Easterly, Levine, Roodman, 2004); someone recognized the extreme variability in results by using different methodology and concluded that aid may affect growth but is not a decisive factor, interacting with other variables (Roodman, 2007). Recently, a fourth generation has revived the "Micro Macro Paradox", denying a robust effect of aid on aggregate level (Rajan and Subramian, 2008) and replacing previous macro-researches with small-scale and delimited studies, which only can lead to statistically significant effects (Arndt and Channing, 2010). Still, a macro-economic analysis on ODA effect is necessary, to justify developed countries' ongoing allocation of resources of national budgets to their citizens in times of financial and economic crisis, in times when some label aid "the biggest single inhibitor of Africa's growth" (Moyo, 2009).
To summarize, these are the main theses on debate (Brempong and Racine, 2014):

1) Aid has a positive effect on growth; evidences are inconclusive, since some good results (e.g. Mozambique, Uganda, Botswana in Radelet and Clemens, 2004) are counterbalanced by poor national cases (e.g. Haiti, Liberia, Democratic Republic of Congo in Radelet, Clemens and Bhavnani, 2004).

2) Aid has no effect on growth and may be even counterproductive: (Easterly, Levine, Roodman 2004, Moyo 2009, Rajan and Subramanian 2008): supported by national dismal cases (see above), but in contrast with historical proofs of effectiveness of aid such as the Marshall Plan, analyzed later (Burnside and Dollar, 2004).

3) Aid has positive effects on growth only if conditioned with good local policies: such conditionality is represented by an interaction term "aid*policy" where policy is not under donors' control and comprises trade openness, fiscal surplus and inflation and is significant in a panel of 56 countries between 1970-1993 (Burnside and Dollar 2000). Later expansions and robustness checks generally confirm the hypothesis (Easterly, Levine and Roodman (2002), Collier and Dollar 2002, Collier and Hoeffler 2004, Brempong and Racine, 2014).

In spite of improved models and empirical methodologies, the Micro-Macro Paradox is therefore still actual and keeps dividing studiers' opinions. For instance, Arndt, Jones and Tarp (2010) in their revision of RS08 (Rayan and Subramanian, 2008), come to conclusion that, by improving specifications, instrumentation strategy and estimator, a positive robust effect of aid appears in the long run, while in short and middle-term horizons it is difficult to discern. Brempong and Racine (2014) using a non-parametric model and a large set of explanatory variables, to avoid bias for interaction with omitted variables, finds a U-shaped relation between aid and growth: at low levels of aid it is deleterious and starts to be effective after crossing a certain aid threshold, with increasing returns later on.

I believe there are two main issues concerning aid debate: the critiques over determinants and factors that limit aid effectiveness on recipient countries, and the poor designing of evaluation models, that fail in giving a trustworthy statement about aid effects.

2. Limits and pitfalls in ODA effectiveness

A branch of economists, among which Easterly, Moyo and Deaton, has criticized in recent years the effectiveness of aid, as it is currently modeled. Some of these critics challenge ODA policies in their design and goals, and deny that these can have a significant effect on economies of poor countries at all. Some others, on the other side, do not deny possible benefits foreign aid could produce, but point out distortive practices in both donor and recipient countries, which often undermine any potential positive outcome.

2.1. Dependence from arbitrary factors

A valid instrument used to regress the level of growth on the level of foreign aid is the ODA income threshold, measured in US dollar. It was set at 580$ in 1987 as rationalization criterion for ODA, since developmental resources got scarcer certain degree of selectivity had to be defined, and later adjusted yearly for inflation. Allowing for some income fluctuation, after three consecutive years over the threshold, the country is considered creditworthy and with lower ODA need (Galiani et al., 2014).

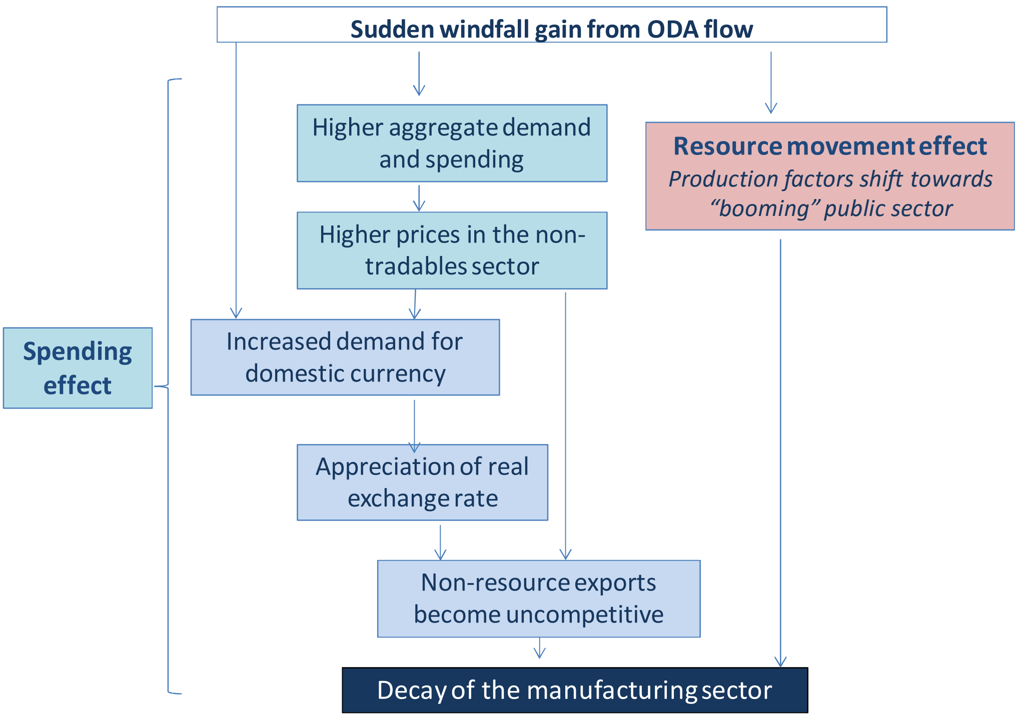
For countries which cross this arbitrary measure from below, as shown on a panel data study on 35 poor developing countries between 1987 and 2010, the aid flow received decreases, even if no structural change occurs and the income increase was due to positive temporary shocks. Econometric models show a substantial aid decline after threshold-crossing of 92%, while effective graduation from aid would be endogenously determined also by good economic policies and performances. Since reducing aid has a sizeable negative effect on resource-constrained economies, it could harm growth: according to their model, 1% decrease of ODA/GNI causes a 0.0312% decrease of GDP (Galiani et al, 2014).

Using an arbitrary threshold and not looking at real internal structural changes may also offer chances for recipients to manipulate data, in order to maintain aid reception.

2.2. Aid as Resource Curse

Burnside and Dollar (2000), in their studies referred to 1970-1993 period, find out that bilateral aid, being mainly fungible and not under tight control of donors, has a strong effect on government consumption, which promptly wastes resources supposed to be invested on structural growth.

This resembles some similarities with what Auty defined to be the “Paradox of Plenty”, or “Resource Curse” (1993): the idea that a sudden unearned inflow of wealth, such as a natural resource extraction, can be counter-intuitively damaging for growth, wiping off resources from the main manufacturing sectors. Djankov et al. (2008) support this idea and argue that ODA flow, as well as peaking rates of extractive activities, tourism or a sudden increase in foreign remittances, can be detrimental for a nation's economy, even more than an increase in oil rent. The economic explanation of such idea has been fully developed by Corden and Neary (1982) in their theory of the Dutch Disease, taking the name from macroeconomic problems affecting the Netherlands after a large natural gas discovery in the 1970s. They studiers consider a small open economy, not able to affect world prices and made of three sectors: the natural resource or booming sector, the tradable sector (e.g. agriculture and manufacturing), for which prices are set in the world market, and the non-tradable sector (e.g. services), for which prices are set in the domestic economy. The windfall gain arising in the booming sector has two simultaneous deleterious effects for such economy in the short run: a "spending effect", that ultimately makes non resource export industries uncompetitive, and a "resource movement" effect, which shift investments in the new source of gain (Corden and Neary, 1982).



Dutch Disease applied to ODA flow

Combined together, these mechanisms lead to the decay of the manufacturing exportable sector, which can be considered an important source of long-term economic growth (Jones and Olken, 2005). Rajan and Subramanian (2011), using an innovative within-country cross-industry context instead of the cross-country methodology of previous studies, and therefore controlling for eventual country-specific variables, add new evidence to the fore mentioned theory. The proof that the real exchange rate is the proximate factor through which aid has a shrinking effect on export sectors is the relative decrease of growth in value added, by comparing exportable and non exportable sectors in the same country (Rajan and Subramanian, 2011). They also find that such shrinkage effect for 1% increase in aid/GDP corresponds to a reduction in size of manufacturing sector of 0.2-0.3 %.

However, the medium run effect may see an increase in productivity coming from non tradable factors, which could partially or totally offset the previous loss in competitiveness; therefore the overall effect cannot be determined a priori (Rajan and Subramanian, 2011).

A trend of opinion among economists, looking at evidence of an uneven occurrence of the shrinkage of governmental investment among recipients, have suggested a "conditional version" of the resource curse: aid inflow could become harmful for economy only under certain recipient conditions only. The most commonly recognized conditions are weak and "grabber-friendly institutions" (Mehlum et al., 2006), lack of electoral competition (Andersen and Aslaksen, 2008), low levels of human capital (Ortega and De Gregorio, 2005), lack of economic freedom and competition (Farhadi et al., 2015).

The size of unintended damages aid flow could produce depends strongly also on aid dependence, that is the extent to which recipients' economies rely on it, other than simply receiving it (i.e. general aid abundance), so that the government cannot perform its core functions without.

These two concepts are different but strongly related: ODA dependence is predominantly determined by abundance, but requires also a relatively small sized economy and an over-reliance on the considered revenue source. While abundance is an exogenous factor, dependence is endogenously determined by governments choices. Some countries have been characterized by persistent aid dependence: for example, in Malawi, Ghana and Zambia foreign aid covered more than 40% of government expenditure between 1980s and 2000s (Brautigam and Knack, 2004 and Riddel, 2007).

At this regard, many scholars such as Pedersen (2001) have argued that recipient governments deliberately set themselves in a condition of longing in order to qualify for aid; this is explained by the Samaritan's Dilemma, introduced by Buchanan (1975). It tells us that, in a non-cooperative Stackelberg game between a wealthy altruistic country and a discretionally needy country which can decide (i.e. leader) wheter to use government revenues efficiently, if the latter (i.e. follower) decides first it will deliberately waste money, in order to oblige the rich country to donate aid. This model assumes that, being donor countries altruistic, the more poverty they find in recipients, the more aid they are willing to give (Pedersen, 2001). It takes a quite simplified view, not considering that in repeated games donor government will condemn recipient's waste, and donors themselves also moved by rather egoistic reasons.

2.3. Strategic motives

Alesina and Dollar (2000) in their paper show that, in many cases (except for Scandinavian countries), aid is not given looking at objective economic parameters and at the poorest' needs, but according to other criterions, shown in the picture below (Miniou and Reddy, 2006).

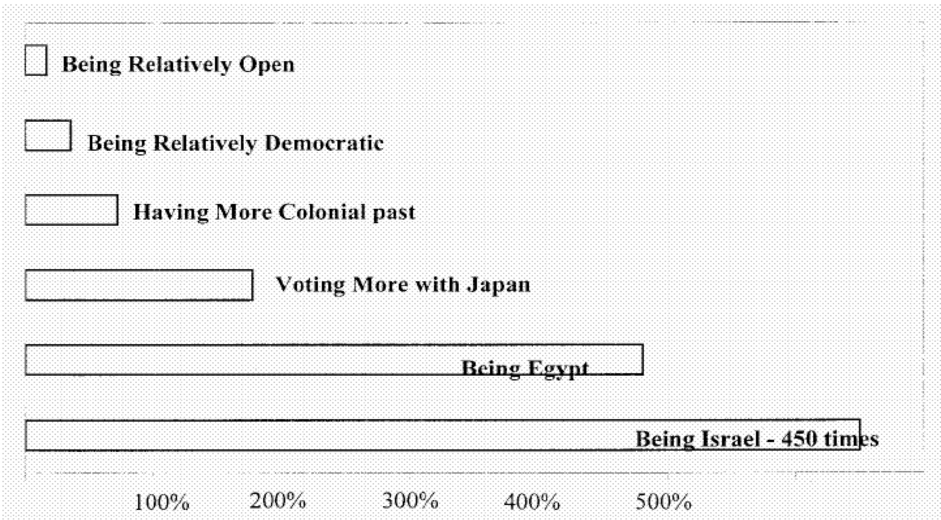


Figure 2. Additional aid a country gets for . . .

Source: Alesina and Dollar (2000) "Who gives foreign aid to whom, and why?"
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Supportive of their result is the study by Qian (2014), which shows that the composition of top recipients has changed significantly between 1960-2013, not with priority to the poorest countries but rather because of other considerations. Indeed, aid to the poorest 20% of recipients makes up only 1.69% to 5.25% of total global aid (Qian, 2014).

Alesina and Dollar (2000), on bilateral flow between 1970-1994, find that aid, notably for France and Portugal, is positively associated with former colonial ties and tends to grow with the duration of colonization.

Also Arndt, Jones and Tarp (2010) support the idea of a persistent donor strategy: they argue however that the "colonizer" dummy is not usable as instrument to test whether a causal relationship exists between aid and growth, because it does not produce an orthogonal effect

on growth. Rather, each country has its own attitude in giving foreign aid with differently balanced and time-invariant criteria, treated as fixed effects (Arndt, Jones and Tarp, 2010).
“Having same UN voting patterns” has a significant relative effect too, since it points out a deeper alignment in economic and geopolitical interests; donors may give more aid to recipients already allied, counting on the fact that they will use aid flow consistently with their same interests, or to acquire new allies (Alesina and Dollar, 2000).
“Being democratic” plays a role too; evidence shows that countries which democratize can expect an increase in aid flow more than what countries turning authoritarian can expect in reduction; therefore there is strong proof of donor countries promoting democracy spreading (Alesina and Dollar, 2000).

Burnside and Dollar (2000) and later Qian (2014) highlight that some delivery modalities of aid may give more margin for opportunistic interests: in allocation of bilateral aid, donor interest variables prevail over the effort to reward good policy, while this is not the case for multilateral aid, based on more objective data. This has to be taken into account, since bilateral aid still makes up around 60% of total ODA, with US, Japan, France and Germany accounting together for almost 70% of total flow (Alesina and Dollar, 2000).
Differently, private donors and Foreign Direct Investors seem to reward economic openness more, since they are less influenced by political interests (Alesina and Dollar, 2000).

2.4. Influence of donor and recipient’s characteristics

A large field in economic literature states that donor and recipient countries’ characteristics influence results of aid flow.
Recipient countries with a sound political system and better institutional quality invest aid more effectively, producing generally higher GDP growth (Burnside and Dollar, 2004) .
Starting from 1990s, most of foreign aid favored well-performing governments: Burnside and Dollar suppose it could be a deliberate choice to reward good policies, or a consequence of a strategic Cold War logic, to breed new allied countries with whom to later establish trade relations. Finally, it makes easier for donor government to politically justify resource allocation if recipient country performs well, and to claim the status of “good donor” (Burnside and Dollar, 2004).
Looking at agencies approach, we do not find one common attitude: US government, IMF and World Bank believe a tough approach should be used in exchange of aid, while UN argue that not all poor countries perform bad in governance and that they should be let free to develop their own strategies (Easterly, 2006).

Looking at the other side of the aid relationship, Easterly and Pfutze (2008) put attention on donors' characteristics and try to define features of an ideal best-performing aid agency. According to the five variables (fragmentation, selectivity, ineffective channels, overhead costs and transparency) they provide an absolute and relative ranking of existing agencies; their results show fragmentation of aid towards many different destinations, with high overhead costs, overlapping interventions, and lack of specializations. To cite one for all, US is proven to provide foreign assistance through more than 50 different aid agencies (Brainard, 2007, Easterly and Pfutze, 2008).

They also denounce widespread non-disclosure about delivery targets and administrative costs, and excessively high operating costs even in some of the most important UN agencies (Easterly and Pfutze, 2008).

All this can undermine aid effectiveness, because, given good intentions, delivery action is often fragmented, resources are drained to cover operating costs, economies of scale and scope are not fully implemented.

Bearce and Tirone (2008), instead, state that aid can be effective only if donors' strategic benefits deriving from aid are relatively small; in post-Cold War era, strategic motives have become less stringent, allowing donors to focus more on promoting proactive reforms and on defining reliable conditions, with the result of aid being more effective (Bearce and Tirone, 2008).

2.5. Tied aid

Tied aid, carried on for many years by most donors, is defined as "official grants or loans that limit procurement to companies in the donor country or in a small group of countries"(OECD, 2016). In this way, competitive mechanisms are hindered and countries are not let free to choose the most efficient and qualified provisions, often having to accept higher prices that impoverish their economy: part of potential benefits of ODA are therefore nullified. Researches prove that costs are raised between 15%- 30% on average and by 40% or more with tied food aid (Jepma, 1991 and OECD, 2006a). Benefits in term of increased trade for donor countries, on the other hand, seem to be limited (ODI, 2009). Such detrimental practice, largely adopted by US in the past, has recently stepped down thanks to international recommendations; still, technical cooperation (TC), largely offered in project aid, and food aid present considerable shares tied aid, 30% and 50% respectively (ODI, 2009).

OECD/DAC Recommendation, assessing provisions to combat tied aid, suggests donor countries to convey funds through general budget support (GBS) and vertical funds, that

Millennium Development Goals (UN)

allow recipients more expenditure autonomy. Another good practice recommended is the local and regional procurement of food aid, which could be doubly-beneficial for recipient countries, since agriculture is often the main manufacturing sector and economy driver (ODI, 2009).

2.6. Wrong approach: planners versus searchers

An important step in world aid cooperation has been carried out in 2000 with the Millennium Development Goals, a blueprint of eight targets agreed by all UN members in order to arrange coordinated efforts in bringing growth to the poorest ones, hitting specific goals by 2015.

These goals have been carried on by different UN agencies: among others UNICEF, WFP, UNFPA, UNEP, ILO. Nevertheless, there are strong critiques both in the content and in the way these have been pursued (Easterly et al., 2003).

In particular, criticism has been raised for the following main reasons.

First, the time span of fifteen years considered is claimed to be too short and unrealistic to attain significant results. Plus, there is no a main responsible organism with enforcement duty in case of missed achievements by member countries, weakening the strength of such mandatory provisions. Moreover, some studiers argue that there is too much emphasis on social sectors, and no specific measures are provided to verify eventual achievements (for example, regarding improvement in maternal health). Another potential drawback could be the lack of sequencing and prioritization in hitting goals, seeming that all millennium goals have to be achieved with the exact same importance, with the risk of fulfilling no one (Easterly, 2006).

Results have been uneven, with many donor countries focusing on giving grants and debt relief, rather than investing on specific interventions. The action of UN agencies themselves has been criticized by some economists such as Easterly (2006), arguing that this Bretton Wood institution is too fragmented in different agencies which miss an overall coordinated strategy and often risk to overlap.

Catching the momentum, as the MDG era has ended, UN has launched the Sustainable Development Goals, endorsed in September 2015 and to be fulfilled by 2030. The agenda contains 17 ambitious goals, focused mainly on gender equality, private sector development and digitalization (UNDP, 2016). Although recognized as more detailed and realistic, some criticism remains.

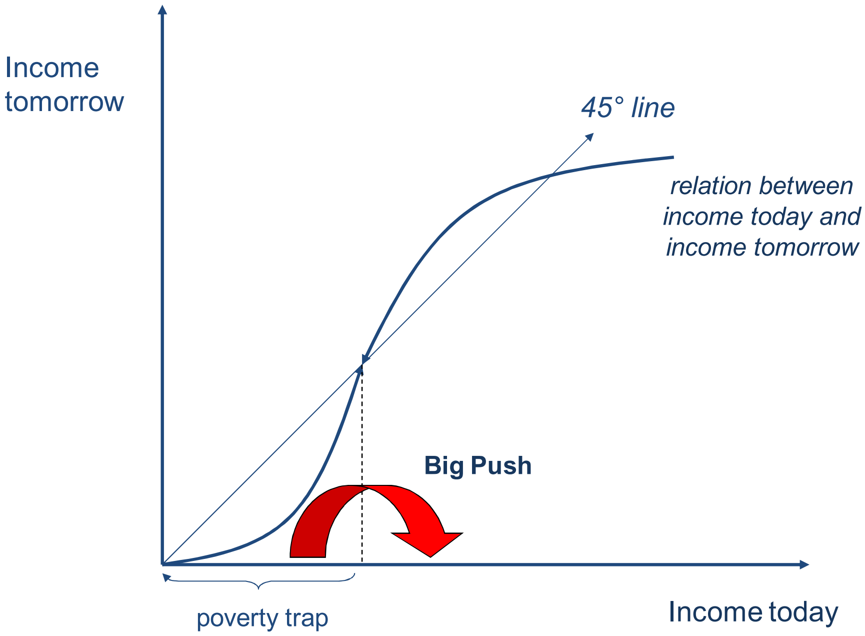
The approach towards development under such goals is based on development studies held by Jeffrey Sachs, special advisor of UN Secretary General, author of “The End of Poverty” and strong believer of developmental programs. The central argument in Sachs’ theory is the existence of a “poverty trap” in poor countries, which lead them to perpetuate in their state of misery by creating a vicious cycle, which reinforces poverty (Sachs, 2006). Such trap has three main forms: a saving trap, a demography trap and an infrastructure trap.

With “saving trap”, Sachs refers to the lack of margin of income for poor country households to be invested for the future.

The high child mortality rates, due to underdeveloped sanitation systems, and the lack of social security nets leads poor populations to rely on their offspring for their retirement maintenance. Children are considered an investment item and, since only a part of them survives, household fertility is disproportionately high, leading to more mouths to be fed: the so-called “demographic gap” (Sachs, 2006).

Finally, in poor countries public investment in basic infrastructures is often launched but not completed, leading to unfinished structures that are not usable at all: such “infrastructure trap”, makes investments done useless, since money put in partly-built roads create no benefit at all and maintain an unfriendly environment for FDI and business development (Sachs, 2006).

Nevertheless, a “Big Push” of massive foreign aid can lift such countries out of their poverty trap, helping them to overcome the income threshold that would keep them in the reinforced poverty cycle.



Source: OECD Qwids (2016)

In order to attain the Big Push, Sachs in the UN Millennium Project suggests a range of 449 interventions covering ideally all needs of poor peoples, in order to overcome 54 different barriers, to be all systematically implemented under UN coordination. Such plan has seemed attractive to donor countries in terms of cost and promised benefits. The Millennium Village Project, launched by UN in 2002 under Sachs' guide, was designed to prove such hypothesis. It was made of 14 clusters of African villages, each undergoing a unique mix of interventions, for a total funding equal to the village's income (UN Millennium Project, 2006). Results are inconclusive: although it has raised average income and reduced poverty in many villages, villages out of intervention reached similar results, and doubts remain over methods used to select such community samples, being it not random. Clemens and Demombynes (2011) show that evaluation of estimates depends strongly on the method used: they highlight as weaknesses the small sample size of only fourteen village clusters, a short time horizon of only five years, and a lack of complete baseline data. Comparing results with villages in surrounding areas leads moreover to much more insignificant results than using a before-versus-after comparison. Still, the latter does not represent a rigorous evaluation of the project, since it lack of counterfactual and the original design itself undermined the chance to make effective statements (Clemens and Demombynes, 2011).

One of the strongest critiques of the concreteness and realism of UN Development Goals has been raised by William Easterly, author of "The White Man's Burden". He argues that evidence gives no general proof that aid has a positive and large effect, and advances many arguments against Sachs's view.

First, there is no empirical evidence of poverty traps: data show that the 20% poorest countries in 1950 had later on same average growth rates of richer countries, with no systematic difference between countries that underwent big push-inspired treatments and those which did not (Easterly, 2006). Moreover, some poor countries, such as China, India and Botswana reversed their conditions, becoming success stories. Plus, not all countries that are rated among the poorest today were so poor in 1950: their economic conditions fell from above, proving that the growth dynamics may not be as Sachs has theorized. Easterly (2006) concludes that, although some countries can be said to be in a poverty trap, there is no general statement for all developing countries (Easterly,2006).

Moreover, there is little evidence for effectiveness of aid: what Sachs takes for granted is that aid funds can positively affect growth of poor countries, but still this is a controversial issue, called by many to be a Micro-Macro Paradox, as explained before (Mosley, 1987). Planners and institutions validate and consider only parts of literature that support their approach, proving that aid of the West helps poor countries: the so-called "confirmation bias" (Easterly, 2006).

In Easterly's opinion, having a bad government affects more than being eventually in a poverty trap: is corruption that creates and reinforces poverty, generating all other collateral results. He considers the scenario of 24 countries with bad institutions in 1984, which underperformed from 1895 until 2006, with on average 1.3% less growth. Controlling for both poverty trap and bad governments, its model proves the latter rather than the former to have a causal effect on such small growth (Easterly, 2006).

Easterly also invokes the replacement of "social engineering" with a "piecemeal reform" approach. The former attitude towards development aims to transform society completely, activating all change agents at once, because all instruments are interdependent. Easterly recognizes in the first method, being adopted for long time, some possible drawbacks: in case something in the overall intervention does not work, its design makes difficult to split different causes. Secondly, such big plan requires lots of information and instrumentation available all together, therefore it is less feasible on a large scale. Moreover, it is so extended that it has no focus and does not allow for prioritization. Fourth, such method focuses on

majestic goals, rather than successful methods to solve the different little problems. Since it is carried on by multiple organizations, it lacks of accountability and no pressure is put on measuring results of each agency (Easterly, 2006).
As a proof of failure of big top-down plans, he takes into account failures of shocks therapies in old communist countries transitioning to Capitalism (Easterly, 2006). “Piecemeal reform” approach rather arranges a sequence of small steps, to be carried on one at a time, considering socio-economical constraints and rewarding agents that bring better solutions. In Easterly’s opinion, each agency should adopt a piecemeal approach, looking for specific interventions that work on a small scale with empirical approach, and working on them together with local governments (Easterly, 2006).

Finally, development is not a only technological problem, as Sachs believes: many developmental problems are rather institutional and economical. Focus should be therefore not only on technicality, but on developing an organic system of enforcement tools, incentives, evaluation systems in order to ensure that aid funds are really reaching the targeted poor (Easterly, 2006).

2.7. Fostering social conflict

There are some evidences that foreign aid can increase social conflict, although this relationship appears significant only in recipients with low income or led by weak governments.
In particular, Besley and Persson (2011) argument that aid increases conflict only in presence of non-democratic institutions: receipt of aid funds triggers more takeover attempts by competitors, because holding the government becomes more desirable.
According instead to Collier and Hoeffler (2002), the direct effect of aid on conflict is ambiguous and can only be determined empirically, since it could either increase desirability to rebel or strengthen government against internal opposition.
Moreover, aid could help recipient government to diversify and decrease commodity export dependence, proven to increase chance of internal conflict (Collier and Hoeffler, 2002).
Nunn and Qian (2014) also observe that food aid is related with an increase in conflict in many low income countries, by increasing variability related to food delivery timing, creating uncertainty. Gallego, Rubini and Batlle (2015) follow the same path and find that, in societies with low institutional quality and low expropriation costs of private activities, aid can foster social conflict. Their model shows that aid reception increases exogenously firms value but also incentivizes “trouble makers” in trying to expropriate such profitable firms. The resulting

social conflict (measured as number of battle deaths over total population) erodes partially the benefits produced by investments done, reducing growth: “conflict” is therefore a crucial instrumental variable. In case of good institutions however, aid may even reduce social conflict (Gallego et al., 2015).

2.8. Contributing to political unaccountability and corruption

Deaton (2013), Easterly (2003) and Rajan and Subramanian (2008) focus on political accountability: an increase in foreign aid, being unearned, lowers need of collecting taxes, and less need to appear accountable to citizen. Brautigam and Knack (2004) report that in Africa higher aid levels are on average associated with decline in tax revenues over GDP and of governance quality. Politicians tend to engage in rent-seeking activities, attempting to gain the more of the windfall gain they can, and trying to exclude unrelated actors from the political process (Djankov et al., 2008).

Svensson (1999) notices in these circumstances a decreased provision of public goods, in spite of the increase in government revenue and even with the sole prediction of future aid flow. This detrimental behavior can be avoided by donors through imposing binding agreements, to reduce space for corruptive behavior (Svensson, 1999).

The problem of corrupted and weak governments is one of the most controversial in regards to possible solution; still there is no consensus among donors on how to properly deal with it.

First, a proper measure for corruption and mismanagement is difficult to assess: World Bank estimates present high error margins, and rating agencies have problems producing equal rankings. For example, the Millennium Challenge Corporation, an US organization founded under Bush mandate to give aid to countries achieving certain socio-political standards, reached an aid agreement with Honduras, believed to be a good government. That country was however ranked by World Bank as the worst third in the world for corruption (Easterly, 2006).

The second reason is that no common opinion exists about what donors should do regarding corruption. Should they give standards to meet, as foreigners? Should they live recipients to auto-determination? The current aid implementation shows a contradictory series of actions (Easterly, 2006).

2.9. Increasing waste spending

Finally, another detrimental effect that aid receiving may produce is waste in government spending.

Besley and Persson (2011) find that recipients with strong aid dependence tend to invest less in building state capacity, weakening their fiscal and legal systems; this consequently limits the range of policies reform a state is able to implement, and reduces effectiveness of all successive aid flows.

Robinson and Torvik (2005) have developed the theory of so-called "white elephants", which explains that the dismal effect of aid on growth is partially due to missal allocation of funds in big investment projects with negative social value, the "white elephants", in countries with low labor productivity. Incumbent governors find them attractive because they can credibly guarantee the electorate to carry them on, and thus they have a comparative advantage with respect to political competitors in the probability of being re-elected. A case they highlight is the Industrial Development Corporation (INDECO) project in Zambia (Robinson and Torvik, 2005).

3. Limits in models evaluating existing aid

3.1. Endogeneity of aid

One big issue that makes the evaluation of effectiveness of aid quite difficult is its endogeneity. Indeed, some allocation criteria of ODA favor recipients that are performing particularly badly, following the Good Samaritan hypothesis (Rajan and Subramanian, 2008). Some other donors, on the other side, reward only well- performing recipients. In both cases, this creates a spurious correlation between ODA and growth that cannot be considered causality, because recipients have different initial growth rates that are not comparable on average (Rajan and Subramanian, 2008). For examples, if aid is allocated to countries that have just experienced a natural disaster, a negative correlation between aid and growth can be expected (Rajan and Subramanian, 2008). It is essential therefore to isolate the exogenous component of aid flow, but finding the correct instrument is far from easy. Rajan and Subramanian (2008) develop innovative instruments which focus on donor-recipient relationship and donors' rather than recipients' features. They suggest some possible control variables, such as colonial links and commonality of languages; these may isolate causal effect of aid on growth, making it exogenous (Rajan and Subramanian, 2008). Another solution could be to instrument aid with its initial and lagged values, not the contemporary ones, to wipe off effects related to the recipient's specific level of growth (Rajan and Subramanian, 2008).

3.2. Poor evaluation and model design

A considerable part of literature has raised doubts about methods used to evaluate impact of foreign aid. An important contribution has been carried by Esther Duflo, co-author with Abhijit Banerjee of the book "Poor Economics". She asserts that, in humanitarian programs, good intentions are not sufficient and a rigorous evaluation should be implemented for social policies, in order to test which aid approach works in reality and to avoid wrong assessments and wastes that fuel pessimism over the utility of aid. The most convincing approach she suggests, taken from scientific resources, is the Randomized Controlled Trial (RCT) (Duflo, 2012 and Qian, 2014).

Among others, she criticizes the frequent poor estimate of counterfactual: in some cases treatment groups are not randomly selected, so it is not possible to assume that on average the only causal factor producing effect is the treatment itself. In these situations, a correct evaluation could be carried on only if transparent and observable criteria are provided to

separate each effect; this could be impossible when some environmental factors interact, further complicating the analysis (Clemens and Demombynes, 2011).
Another effect which can hamper the validity of empirical results is the heterogeneity of impact: means comparisons among group and counterfactual may indeed prove a certain result of the treatment, but impact on each individual could be very different; if possible, it should be analyzed in each subgroup separately (Duflo, 2012).

Duflo (2012) warns also in regards to potential spill-over effects: some programs may have positive or negative impact on other people or areas than the ones originally intended, therefore requiring to extend the evaluation analysis to a wider sample. An example could be the investment on infrastructure programs, which probably benefits also neighboring areas and facilitates creation of business networks.

Another questionable element is the assumption of external validity: it happens in fact that micro-level studies are used to make hazardous inferences and previsions on a bigger scale, without valid economical foundations (Duflo, 2012). This can lead to clamorous mistakes in testing the effectiveness of aid, since not all successful treatments on a local scale will have the same impact on a wider horizon; some interventions (e.g. nutrition programs in India and Bangladesh) have also led to different results at the same aggregate level, depending on other variables, and taking a single result as general can lead to "cherry pick" generalization mistakes (Bourguignon et al., 2007).

Mixed results that question effectiveness of aid are also a result of its poor categorization: id flows are often not clearly associated with targets, and even humanitarian aid, consisting in first emergency intervention, happens to be included, contributing to inconclusive evidences (Radelet and Clemens, 2004).
Poor configuration in models regards also timing: the four-year period considered in many panel data is claimed to be too short to observe long-term effects of aid on growth, improvements in government policies and economic trends, and often biased by cyclical time effects (Radelet and Clemens, 2004).
The best would be to take into account longer time periods, but it gets more difficult to isolate single effects from interaction with omitted factors. For this reason, some studies, such as Radelet and Clemens (2004), distinguish between many categories of aid before regressing the effects on growth:"humanitarian and disaster aid" separated from "long impact aid" with

slow and longer term effect, and from “short impact aid” that likely produces effects on the standard four-year period. Considering only the last factor in the regression, we would usually find a robust effect on growth and diminishing returns at unusually high levels of aid (Radelet and Clemens, 2004).

3.3. Omitted variable bias: policies and institutions

The important impact of policies on growth has first been introduced in economic models by Burnside and Dollar (2000) through a policy index that enters in the regression of growth on aid. They indeed define the growth rate of developing countries as a result of initial income, institutional and policy distortions, aid and interaction effects between aid and policy distortion: they state that the overall marginal effect of aid is lower in presence of bad institutions. Without differentiating for policy, according to their studies aid has little impact on growth (Burnside and Dollar, 2000).

The solution could be to focus on more specific definitions of aid and growth, in order to reduce the scope of issues under analysis. Otherwise it would be really difficult to develop a solid statement about aid effectiveness, because each type of aid has different measurement issues, produces different results and has a different timing (Qian 2014). Moreover, the more aggregated data are, the more difficult is to find exogenous instrumental factors that can isolate causality of aid, both in natural and experimental data (Qian, 2014).

4. Looking beyond growth: ODA and development

Since no discernible average effect of aid on growth has been commonly agreed upon, I want to detect if foreign aid can still be considered beneficial in contributing to development in a wider meaning than sole GDP growth. Recently, many economists have raised doubts about the exhaustive validity of GDP as measure of effectiveness of aid. Other than the sole economic side, ODA should indeed aim to bring development in recipient countries, intended as the improvement of life quality and well-being for as many people as possible. The GDP itself, defined as the market value of goods and services sold in a year, recognized as the best functioning metrics to measure economic production since its introduction in the 1930s, ignores any kind of environmental and social effect. When it was introduced, a great hope in material progress reigned, and economic activity was considered the ultimate solution that could bring employment, raise incomes, fight poverty and create social cohesion (Costanza et al., 2014).

Today, a new view is stepping in, recognizing that to measure the overall development of society a wider scope of measures should be considered: economists as Stiglitz argue that GDP has many flaws and is not even a good economic measure (Costanza et al., 2014).

The purpose of this chapter is to give a brief review of other dimensions of development, to provide examples of innovative metrics used to capture them and to wonder if ODA is today delivering some positive results to this concern.

If we look at World Bank's definition of aid effectiveness, we find: "Aid effectiveness is the impact that aid has in reducing poverty and inequality, increasing growth, building capacity, and accelerating achievement of the Millennium Development Goals set by the international community. Indicators here cover aid received as well as progress in reducing poverty and improving education, health, and other measures of human welfare."(World Bank). Therefore, donor efforts should have a wider scope than sole economic growth; let me consider them in details.

4.1. Poverty

GDP growth and poverty reduction can go together, but they are not always paired: as Stiglitz says, «while growth may be necessary for sustained poverty reduction, it is not sufficient»: growth could happen at benefit of the already rich people, leaving poor people worse off (Stiglitz 2011).

Aid policy should take further steps and target not only GDP increase, but also reduction of depth and magnitude of poverty. There are two important concepts to be considered in this regards, which are relative and absolute poverty.

"Relative poverty" is defined within a specific social context and it is useful to define the relative income levels within the same population (World Bank).

Differently, "Absolute poverty" is defined as an absolute situation of living under an arbitrary poverty line, representing the average daily expenditure. Such threshold has been increased to 1.25$/day in 2008 and to 1.90$/day in 2015, taking into account inflation. Some countries use also a national poverty line as domestic point of reference for redistributive policies (World Bank).

ODA could be effective not in eradicating poverty but rather in alleviating its depth: it is measured by the "poverty gap index", that is the ratio of the money needed to lift all people from below the poverty line, over the total population (also non-poor), expressed in percentages of the poverty line itself (World Bank).

Although useful, these measures still focus on monetary poverty and are based on an arbitrary threshold, which could not be optimal for every single case. Moreover, these are not sufficiently detailed to considered the distribution of monetary poverty: the same poverty gap ratio could have different level of concentration in urban areas, depicting different situations.

Recently among donors, a new awareness that ODA can affect the distribution of growth within poor countries is taking place. OECD has promoted the paradigm that a pro-poor pattern of aid, aiming at removing the obstacles that impede poor people to participate and benefit from growth trends, can be more effective in producing growth. Indeed, according to "OECD Promoting Pro-Poor Growth" (2006), aid policies have to be targeted to solve market failures, lacks of social protections and the vulnerability of lower social classes in order to eradicate the extreme poverty and allow poorest to benefit from growth at least as the other social classes, both in relative and absolute terms (OECD, 2006).

The way ODA intervention is structured (i.e. timing, pace, persistency, inclusion) can produce very different effects. OECD reports a study by Ravallion (2004) which shows that increase in per capita income of 1% may reduce poverty from 4% to less than 1%, depending on conditions and policies applied.

It is crucial in a pro-poor paradigm that donors promote good recipient governments which are accountable for the poorest and let them be heard and considered, with inclusive and decentralized policies implementation (OECD, 2006).

As said before, many aid donors rather pursue strategic goals: Collier and Dollar (2003) computed the poverty- efficient allocation that could maximize poverty reduction, and found that it has a correlation of only 0.57 with actual aid allocation; applying the most efficient pro-poor strategy would allow to double the number of people lifted up from poverty.

4.2. Education

Another important contributor of development is education: such investment, bored by family and government, increases the quality of human capital and capabilities of a nation, can lead to higher incomes and living standards, and it is one of the ultimate drivers of development. Esther Duflo (2011) has lead an extensive analysis of the current programs and corresponding results: neither of these can give a comprehensive and exhaustive solution, since they are run on a small scale, but they can give some clues on possible improvements. Progress has been made: between 1999 and 2006, literacy rates in Sub-Saharan Africa increased from 56% to 70%, and in South-East Asia from 75% to 86%. Besides these good results, Duflo enlists barriers of education-targeted aid: parents appear to be the biggest obstacle of school attendance, since due to direct (transport, textbooks, uniforms) and indirect (opportunity) costs, they deter children school enrolment and participation (Duflo, 2011). To overcome this, many local programs supported by World Bank and UN have given financial support to parents. Some critics argue that children impact is completely ignored, and giving aid directly to students would give an immediate response (Duflo, 2011).

Being enrolled in school does not mean effective participation: in fact, one big issue is student absenteeism, due both to low motivation, underestimation of education benefits and to infective diseases. By designing programs that promote benefits of education and by cooperating with sanitation-targeted project it could be reduced, as some experiments prove (Duflo, 2011).

School attending is however not enough to ensure effective learning: as a result of enrolment programs, classes are often overcrowded, with heterogeneous knowledge levels. Often teachers are not motivated, being absent from school or wasting teaching time in other activities: in a 2003 surprise test, absent teachers made up 16% of total in Bangladesh and 27% in Uganda (Duflo, 2011); if present, they often did not teach. Additional resources can improve effective learning only if these are invested to improve pedagogical methods; for instance, hiring a supplementary teacher in Kenya has resulted to decrease teacher attendance by 25%, *ceteris paribus*. Hiring an additional teacher to downsize classes, and eventually differentiating by knowledge level, has proved to improve school quality, motivating more both students (being part of an homogeneous class) and teachers (having less and more leveled students) (Duflo, 2011).

Further complicating the analysis is the fact that education investments generally require a long time span to produce significant effects (Duflo, 2011).

Still, lots of progress can be made: according to the UNESCO's "EFA Global Monitoring Report on Education" (2015), 58 million children are not enrolled in school and, on average, 100 million children do not end primary school, with growing inequality between rich and poor. In most country, education is not perceived as a priority and remains under-financed. Were funds are correctly seized, policy makers still focus on the traditional approach, ignoring alternative drivers such as students and teachers motivation (UNESCO, 2015 and Duflo, 2011).

4.3. Health

Another issue for many developing countries is health system: having a population weakened by diseases means lower productivity, lower salaries and, at aggregate level, lower growth, besides lowering the living standards. Poverty cannot be defeated without containing illness and contagion (Duflo, 2011). Every year, about 9 million children die before reaching five years of age, even if their illnesses, like measles or diarrhea, are easy to nurse and prevent. Similarly, every year 25 million children do not receive fundamental vaccines widely accessible. Also in this case, some experiments lead on a small scale can help to reflect on determinants of such poor outcomes and how ODA policies could be improved. In many countries, mortality and diseases have increased with sudden economic growth, such as India. Being the market not able to cope with increased food demand, population is undernourished, more fragile and exposed to infectious diseases (Duflo, 2011). In many recipients, public health sector is inefficient, too expensive or poorly developed, so that people rely on unqualified "doctors" in the informal sectors. As a response, often donors increase health budget, without undertaking a serious structural reform. An effective approach to tackle with health issues is to invest ODA budget in vertical funds, such as GAVI (Global Alliance for Vaccines and Immunization) and the Global Fund to Fight AIDS, Tuberculosis and Malaria (Duflo, 2011 and OECD).

4.4. Alternative measures of wealth

New parameters have been introduced to capture also socio-environmental dimensions of development, such as the Adjusted Net National Income, which takes out from GNI the consumption of fixed capital and natural resources depletion (World Bank).

Adjusted Net Savings, instead, adds positive effects of education expenditure and negative effects of energy, mineral and forest depletion to economic national savings (World Bank).

Finally, a notable parameter is the Human Development Index (HDI), which integrates the measure of economic living standards with other two key dimensions of human development, health and human capital, normalizing these all together (UNDP).

4.5. Monetary inequality

Some specific tools try to quantify the level of monetary inequality in a country; this is of massive importance in determining the effectiveness of ODA in poor countries, where the distribution of wealth is often uneven. One of most used metrics is the Gini coefficient, a number comprised between 0 and 100 that represents the extent to which the distribution of income deviates from a perfectly even distribution among citizen, being 0 the perfect equality (World Bank).

4.6. Inequality of opportunities

Income inequality itself considers only outcomes of human activities, not taking into account initial living conditions, which can have different specifications and determine economic conditions.

One innovative measure in this direction is the Human Opportunity Index, introduced by World Bank, based on the idea that different access to basic services have determinant effects on skills and knowledge acquisition and, further, on development in the long run. It measures the coverage gap in access to primary facilities, looking at the variation in rates by considering different socio-economic status. Low values of HOI represent an unequal society, while high values of HOI depict a society in which initial opportunities are more even (World Bank).

The Inequality-adjusted Human Development Index, is similarly a "distribution-sensitive average level of HD". Under ideal conditions of equality in health, education and income, IHDI equals to HDI, but as these social dimensions start to be unevenly accessible, the index is discounted and therefore falls below the conventional HDI (UNDP).

4.7. Institutional quality

A branch of studies has found aid to have a conditional effectiveness, depending on the presence of good institutional policies in recipient countries. In some cases, ODA itself can help to improve the quality of institutions in a country, importing good political practices, correcting useless bureaucratic excesses and rent-seeking practices. One of the most used is the World Bank Country Policy and Institutional Assessment (CPIA), which provides a rating according to a set of 16 criteria grouped in four main clusters: economic management, structural policies, policies for social inclusion and equity, and public sector institutions and management (World Bank).

Noticeable are also Worldwide Governance Indicators, introduced by World Bank to assess the quality of governance of a country based on six dimensions: 1) voice and accountability, 2) political stability and absence of violence, 3) government effectiveness,4) regulatory quality, 5) rule of law, 6) control of corruption. Such intermediate components are derived from a variety of data sources and refer to views of both citizen and experts (World Bank).

5. Unraveling the paradox: successful and unsuccessful cases

Analyzing some real cases can help to identify some policy suggestions and intuitions for the future of ODA. I will here take into consideration two recent examples of successful and unsuccessful Developing Economies, Botswana and Somalia respectively, to understand which role ODA has, what determinants have contributed in the former's positive performance and which aid policy levers could be used in the latter case.

I will later examine the Marshall Plan, the aid program which lifted Europe from poverty, looking at the teachings for today's aid beyond some important differences.

5.1. Botswana's success story

In spite of all negative evidence of aid effects on African countries, with pessimistic views of scholars defining Africa a "growth tragedy" (Easterly and Levine), Botswana has registered the highest per capita growth rate within the last 35 years globally. Its average annual growth rate between 1965-1998 has been 7.7%, with a forecasted 4% in 2016 (World Bank). Many scholars, such as Radelet and Clemens (2004), have recalled this case to adduce arguments in favor of aid optimism. Acemoglu, Johnson and Robinson (2002) attempt to define the determinants of such positive performance; in their belief the unique juxtaposition of many factors has produced such outcome, where none of these factors alone could have done.

First of all, they find the existence of pre-colonial good performing and inclusive tribal institutions to be crucial. Some forms of popular assembly and public forums existed already with first settlement of Tswana group in eighteenth century, being unusual in other African tribal societies, and have been maintained later on. Post-Independence government since 1966 has preserved this structure, establishing quite solid institutions that secured private poverty rights. Linguistic and ethnic integration with non-Tswana minorities has always occurred, before and after independence. Differently to its African neighbors, Botswana society was built on the cooperative integration between different tribes, resulting in great cultural homogeneity in the diversity (Acemoglu, Johnson and Robinson, 2002).

All this in spite of adverse geographical conditions: Botswana landscape is arid, partly desert and landlocked, all factors which has been proved by some to have negative effect on growth (Acemoglu, Johnson and Robinson, 2002 and Sachs).

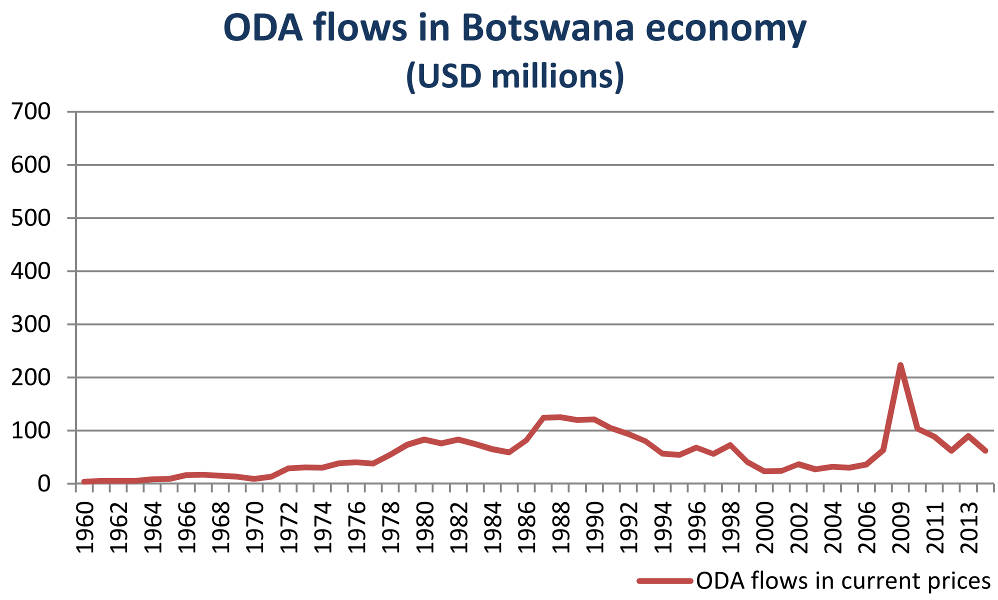
Moreover, despite exploitation practices in most countries, the effect of British colonialism on Botswana society was little, not being it an important trade haven. Even before the "Scramble for Africa", tribal leaders asked England some military protection against Boers. In spite of

the increased colonial competition and discoveries of diamonds mines, the country was supposed to be annexed soon to South African colony, so British colonial presence kept being discreet (Acemoglu, Johnson and Robinson, 2002).
With the rise of the National Party and the progressive nationalist movements in South Africa, the project of amalgamation with Botswana became less and less feasible, being abandoned in 1961. In contrast to the Botswana People Party (BPP), presented as a strongly anti-colonial movement, the Botswana Democratic Party (BDP), lead by Seretse Khama, was able to integrate both existing hierarchy and new social classes, gaining a broad political base to win first elections in 1965 and maintaining a persistent leading position (Acemoglu, Johnson and Robinson, 2002).

Third, private activities and institutional competition have not been threatened after independence, favoring structural investments. and maintaining political accountability towards citizen. Facing an important drought, the state accepted aid flows, especially from Scandinavian donors. Soon after, structural programs such as the Accelerated Rural Development Program in 1969, or lowering voting age, have been launched, together with a series of development plans, in order to attract foreign investors. Many cattle owners, the major social class, have become leading members of the National Assembly; in was in their same interest to invest in the development of agriculture, the main domestic manufacturing sector. Even when diamonds revenues overcame the agricultural ones, the security and stability of the long-history legitimated democratic government did not give them motives to abandon manufacturing investments and seek more urgent sources of income, like in other African states (Acemoglu, Johnson and Robinson, 2002).

Fourth consideration is about Botswana's diamonds abundance: differently from other national cases such as Congo, Zaire or Nigeria, the "resource curse" phenomenon did not take place here. Revenues from diamonds market have been invested efficiently in the government budget, and diamonds industry has managed to ration supply in order to maintain high prices in the market (Acemoglu, Johnson and Robinson, 2002). Such high rents have allowed to register persistent balance payment surplus and to invest in public sectors. Reports show that between 2002 and 2009 the poverty rate has decreased from 30.6% to 19.3%. Also the depth of poverty has eased: household incomes and consumption levels have risen particularly in rural areas (World Bank, 2016).

Throughout all aid era, Botswana has been a steady recipients, with temporary aid upsurge coinciding with droughts emergencies in the eighties (OECD).



Source: OECD Qwids (2016)

Nevertheless, some problems in Botswana society are still to be solved: among others, high inequality and high urban unemployment (World Bank). International reports suggest to address these issue by investing more in education and in private sector development. Another big issue is AIDS, with one of the highest incidences in the world: 25%-30% of the adults were estimated to be HIV-positive in 2002, creating risk of demographic crises (Acemoglu, Johnson and Robinson, 2002). Therefore, there are still challenges open for Botswana government in addressing these issues, sustained by international organizations.

5.2. Somalia: a story of conflict

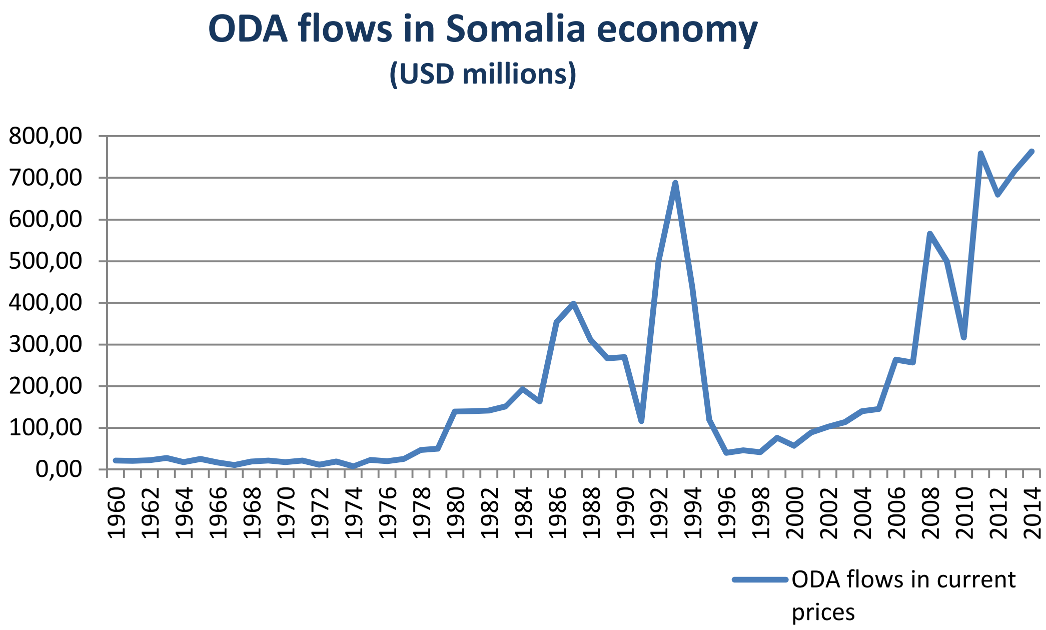
Despite being a country with relatively similar geopolitical characteristics, Somalia presents a totally different series of events: it highlights how dysfunctional pre-colonial institutions can deeply harm a nation’s well-being (Acemoglu, Johnson and Robinson, 2002).

Differently from most African countries, it has been not only a state but a nation: it was not really a result of arbitrary subdivision ‘in the scramble for Africa’ of different colonial empires, but rather a population with a well-established common identity (Acemoglu, Johnson and Robinson, 2002).

Also here the British colonial empire did not really affect political institutions: it was a strategic outpost in the Horn of Africa, to move further in internal zones and control the sealane between Suez canal, India and the Far East. Despite this, the Somali state has suffered from deep political instability since its original tribes, competing over scarce resources. These factions survived the independence shift, up to actual political factions (Acemoglu, Johnson and Robinson, 2002). What really contributed to the series of civil conflicts therefore was not ethnic diversity, but rather the degree of political instability, as argued by Fearon and Laitin (2003).

Since the 1980s, various armed rebel groups started to engage in guerrilla against the leading party, removing it in 1991. The power vacuum originated led competing groups to persistent clashes, causing UN intervention; three different semi-autonomous territories coexisted, named Somaliland, Puntland and Mogadishu region (si veda Maystadt and Ecker, 2014). In late 1990s, two autonomous governments were established in the north and gave a break to ongoing conflict. In the early 2000s, many radical Islamic groups as Al-Shabaab formed, so Ethiopian troops intervention was needed to seize them in the south. In these years, many droughts and famines have hit the country, with the harshest being between 2010 and 2012. The Federal Government of Somalia was finally established in 2012, although it remains a fragile state, due to both the political inner instability and to many economic and demographical issues derived from the famines (Acemoglu, Johnson and Robinson, 2002). Indeed, the Fragile State Index define Somali situation as a ‘very high alert’, being the second most fragile in the ranking at scoring 114 out of 120 of overall fragility (OECD).

ODA flow, kept quite steady between 1960-1975, has picked in 1993, followed by a sudden decline occurred in 1996-2000, and a renewed recent increase (OECD).



Source: OECD Qwids (2016)

Despite the massive inflow, the estimated size of humanitarian needs is even bigger: UN estimates say that in 2014 aid met only 12% of effective humanitarian aid needed, with large part of population suffering from severe malnutrition (Africa Research Bulletin, 2014). The difficulty in last years has been to face many chained issues, difficult to disentangle. Scholars in fact show that slow economic growth contributed to rise of civil conflict, as well as adverse weather and rainfall variability, especially in absence of governmental policies able to cope with such climate change (Maystadt and Ecker, 2014). Particularly, occurrence of drought downsized economic revenues of livestock market, the mainstay of Somali economy (it accounts for 40% of total GDP), reducing the opportunity costs to engage in civil conflict. Moreover, in front of reduced revenues from livestock rearing, a weak credit market and absent social safety nets provided little support to impoverished farmers (Maystadt and Ecker, 2014).

5.3. Marshall Plan and the origin of ODA

Marshall Plan is recognized by some as the most effective economic recovery program in whole history: it regarded a pool of countries, which underwent similar socio-political event, and aimed to rebuild economic and financial stability (De Long and Eichengreen, 1991).

Marshall Plan could resemble some similarities with nowadays' foreign aid, in particular with ODA flows to African countries, since both consist of an agreed set of common rules, criteria and pooling systems of aid flow into bigger organizations: the OEEC at that time and UN,

OECD and World Bank agencies today. Moreover, in both cases aid regards a whole continent (Europe before and Africa then), made up of countries experiencing different development stages, although bonded by common history and culture.
I therefore want to analyze its effects of European economy, by depicting the general features and by isolating its contribution to economic growth.

5.3.1. Historical background

The Second World war had left death and destruction all over Europe, killing over 8 million people in western Europe and over 9 million in Central and Eastern Europe. The economic damage was also huge, with most countries jumping back to GDP levels of the beginning of 20th century; as an example, Austria was at 1886 levels, France at 1891 levels, Germany at 1908 levels (Baldwin and Wyplosz, 2015).
Conditions were critical, with widespread hunger and food rationing. Germany, one of conflict's main actors, had to face destruction of about a quarter of its capital stock compared to pre-war levels (Comin and Hobijn, 2010). Agriculture and coal industry were the most wounded sectors, and European capacity of importing resources from outside was minimal (De Long and Eichengreen, 1991). Intra-European trade was hindered by lack of foreign currency, its role in international exchange had been replaced and no international authority existed that could re-organize international trade. The UN Relief and Rehabilitation Administration (UNRRA), founded in 1943 to give support to weakened belligerent countries, spent around 4 billion dollars on emergency food, medicines and general humanitarian aid, helping displaced Europeans to come back to mother-country and building refugee camps for the ones who did not want to be repatriated (Baldwin and Wyplosz, 2015).

At the same time, hostility started to increase between US and URSS, each federation representing a different economical and political model: the main proponent of capitalist doctrine on one side and the fortress of soviet union on the other (Ozer, 2014). The problems had three main roots: the first were difficult economic conditions in Europe and the need to guarantee themselves from risk of overproduction and excessive surplus; the second consisted in the threat of empowered communist parties in Greece, Italy and France, which could favor the soviet advancement in Europe. Finally, US wanted to contain Germany's possible drives and create a secure and peaceful European environment, under the guide of UK allies. George Marshall, US Secretary of State, declared US would offer financial assistance to all European nation "west of the Urals", conditioned that they could define a common program for reconstruction: the so-called Marshall plan or European Recovery Program (ERP). EU response came soon after: the CEEC (Committee for European and Economic Cooperation) was founded in Paris in 1947, as an assembly of initially 16 members, with duty of defining priorities and give a common estimation of aid needed to rescue Europe (De Long and Eichengreen, 1991).

Also Turkey was included, as a reward of military assistance in the last war period, in spite of its neutral position, and recognizing its key position as belt cushioning Europe from Soviet threat. Other beneficiaries were Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland and United Kingdom (Ozer, 2014).

US insisted particularly that the management, distribution and control of aid funds would be left to recipient countries, to increase their autonomy and self-determination. The CEEC therefore set up a permanent organism for this purpose, called Organization for European and Economic Cooperation (OEEC).

Somehow, OEEC was a global organization: although US and Canada did not officially participate to the assembly, they were invited as auditors to the works; representation of the colonies and overseas territories was left to parent countries.. When also Canada and US joined officially, it changed name in Organization for European and Economic Development, still actor of international politics and development issues nowadays (De Long and Eichengreen, 1991).

Starting from half of 1948, large aid inflow started to arrive in Europe. US created in that same year the Economic Cooperation Administration (ECA) to manage aid flow. A multilateral approach was adopted: each member of OEEC had to present US a projection of its gross national product, domestic savings, investment requirements over a five-year period. All funds had later to be divided by common agreement among all states, finding a momentum between competing needs and demands. A special agency was also set up in each recipient state, with one US representative and members of public and private sector, and responsible of developing a proposal of bilateral agreement as foundation of the subsequent aid flow (CVCE 2015 and Ozer 2014).

Between April 1948 and June 1951, it totally amounted for almost 13 billion dollars of the direct level, 9 of which were given in grants (De Long and Eichengreen, 1991).

Country	Total	%	Grant	%
Total	**12,992.50**	**100**	**9,290.20**	**100**
England	3,165.80	24.4	1,956.90	21
France	2,629.80	20.2	2,212.10	23.8
Italy	1,434.60	11	1,174.40	12.6
West Germany	1,317.30	10.1	1,078.70	11.6
Holland	1,078.70	8.3	796.40	8.6
Austria	653.80	5	556.10	6
Greece	628.00	4.8	34.40	5.5
Belgium	546.60	4.2	217.30	0.3
Denmark	266.40	2.1	196.00	2.3
Norway	241.90	1.9	62.40	2.1
Turkey	184.50	1.4	18,00	0.7
Ireland	146.20	1.1		0.2

"Marshall Plan aids in total (000 $)" from Ozer, 2014. Source: Erhan (1996)

Aid was given in two levels: the first, so-called direct level, consisted of grants, loans and credit, while the second or indirect was the "right of circulation": it provided right to import a certain amount of goods from US or other European Countries, with the idea of sustaining each other's economy in the reconstruction path. As an example, Germany, England and Belgium were the countries that provided imports of agricultural tools to Turkey between 1949-1950 (Ozer, 2014). In-kind aid and provision of industrial machinery was available to private firms by paying cash or using Marshall Credit, depositing preliminarily a certain share to the competent ministry. Beside, technical assistance was also guaranteed: technicians were sent to US to directly acquire expertise in agriculture and industry, and several courses on agricultural and production techniques were organized in each recipient country (Ozer, 2014). This, together with new equipment, gave a great boost to productivity both in agriculture and industry: thanks to new US equipment, both became much more industrialized and increased in efficiency, reaching way higher output values in following years (Ozer, 2014).

Specifically to fill the huge productivity gap before-post war, US launched in 1949 the "Technical Assistance and Productivity Program" (TAPP) as a conduit for knowledge transfer; promotion of development trainees went on through the European Agency for Productivity . Results came soon after: sources say that industries productivity on average increased by 20% to 25% within a sole year, considering the sole program effect (Comin and Hobijn, 2010 and CVCE, 2015).

Table 6. Index of Total Agricultural Output for Human Consumption of OEEC Countries (Pre-War= 100)

Country	% of pre-war total European production(a)	1947- 48	1948- 49	1949- 50	1950- 51
Austria	1.63	53	66	79	88
Belgium- Luxembourg	2.09(b)	83	93	116	119
Denmark	1.93	84	92	113	126
France	15.72	78	100	103	111
Germany(Federal Rep.)	10.61(c)	60	76	96	106
Greece	1.21	83	79	110	93
Ireland	1.5	89	88	95	103
Italy	8.42	85	95	103	109
Netherlands	2.58	79	93	116	119
Norway	0.62	86	92	112	120
Sweden	2.08	101	111	115	116
Switzerland	1.38	95	98	98	104
Turkey	2.33	96	120	94	106
UK	5.89	95	111	114	122
All member countries	N.A	81	95	104	111

"Index of Total Agricultural Output for Human Consumption of OEEC Countries (Pre-War= 100)" from Ozer, 2014. Source: OEEC Statistical Bulletins (1952)

Economic recovery, therefore, was seen in a completely different view compared to after First World War: not as a progress at expense of other states, making great use of trade barriers to protect internal market from others' competition, but rather based on economic openness (De Long and Eichengreen, 1991).

Countries holding a bigger share of pre-war total European production experienced a bigger increase in production. This can be due to higher levels of human capital and expertise preexisting Marshall aid, or to wider aid inflows in these economies, all considered drivers of agricultural sector in Europe (De Long and Eichengreen, 1991).

The political importance of Marshall Plan was also evident: the politics of containment against rise of national communist parties was persistent, and led to a victory in most countries. Propaganda campaign was made through disparate means, such as the 'train for Europe', distributing food supply and commodities, to strengthen the idea that ERP was working well in bringing back progress and peace (De Long and Eichengreen, 1991).

The OEEC was endorsed with a big challenge, other than the sole subdivision of aid among members: to build a net of multilateral trade within Europe, overcoming the rigid bilateral payments and rudimental trade channels still left from war. In fact, many EU countries went on bankrupt after 1945, so that many of their trades were lead using barter. The creation of the European Payment Union (EPU), which lasted between July 190 and December 1958, allowed to multi-lateralize such bilateral agreements, with each EPU member having the overall surplus or deficit with respect to all countries; in this way nations did not owe something directly something to each other, so that any preference in importing or exporting from particular debt-bonded country disappeared. This allowed to reduce intra-EU trade barriers, foster growth of incomes and internal trade, and made the idea of an "European Integration" seeming more economically attractive (Baldwin and Wyplosz, 2015).

5.3.2. Impact on Economic Growth

Discussions in literature have been made over the economic impact of Marshall Program on European recovery and later sustained growth.

The main shared thesis is that it was not the main driver of the good economic outcome, but it played an important role (De Long and Eichengreen, 1991). This somehow confirms Burnside and Dollar's (2000) assertion that aid cannot change policy by itself, but internal factors in the recipient country are necessary. These could have been the will to restart, the high level of human capital within each European Country, the victory of democracy after years of authoritarian regimes (i.e. Nazi and fascists). All these factors contributed to foster growth among European states, with average real GDP growth of 12% in Germany, 9% in Austria, 7% in Italy, 6% in France between 1948-1951 (De Long and Eichengreeen, 1991). Average national incomes per capita were more than 10% above pre-war levels (De Long and Eichengreen, 1991).

“Economic Growth in European Nations During the Marshall Plan Years” (De Long Eichengreen, 1991)

Although each country experienced its unique growth path, I can identify some common positive contributions that have made Marshall Plan effective to bring growth.
First, it gave back to Europeans a renewed trust in market, which had been lost after the Great Depression in the thirties. Skepticism against liberism, proven to fail, had been reinforced by curiosity for the apparent soviet economic miracle, and by the consolidated government control established in war years (De Long and Eichengreen, 1991). Reminding the Great Depression and fearing liberal policies, many governments were instead prone to regulations and interventions. With US Plan, a shift occurred, dismantling products and factors’ control and restoring internal and intra-state markets (De Long and Eichengreen, 1991).

Moreover, differently from UNRRA, it was a multi-year commitment, not simply targeted at plugging humanitarian holes: governments could rely on such steady flow, while implementing internal reforms and reconstruction (De Long and Eichengreen, 1991).

Evidence shows that the Second World War has been harsher than the previous, with more sophisticated weapons, more deaths and more scattered economic damages, but the following recovery was faster and less erratic. According to De Long and Eichengreen (1991), that is because, after the first world conflict, Europe had a more unstable socio-political situation: the burden distribution of war reparations was unresolved and each social category, and state at an higher level, sought to promote their aggressive claim for a favorable redistribution (De Long and Eichengreen, 1991). In the Marshall Plan’s frame instead, great political effort and propaganda was put to favor steps towards a closer integration among European states, and each state found more favorable to cooperate for a distribution of the resource pool received with the Plan, instead of claiming a better reparation single treatment (De Long and Eichengreen, 1991).

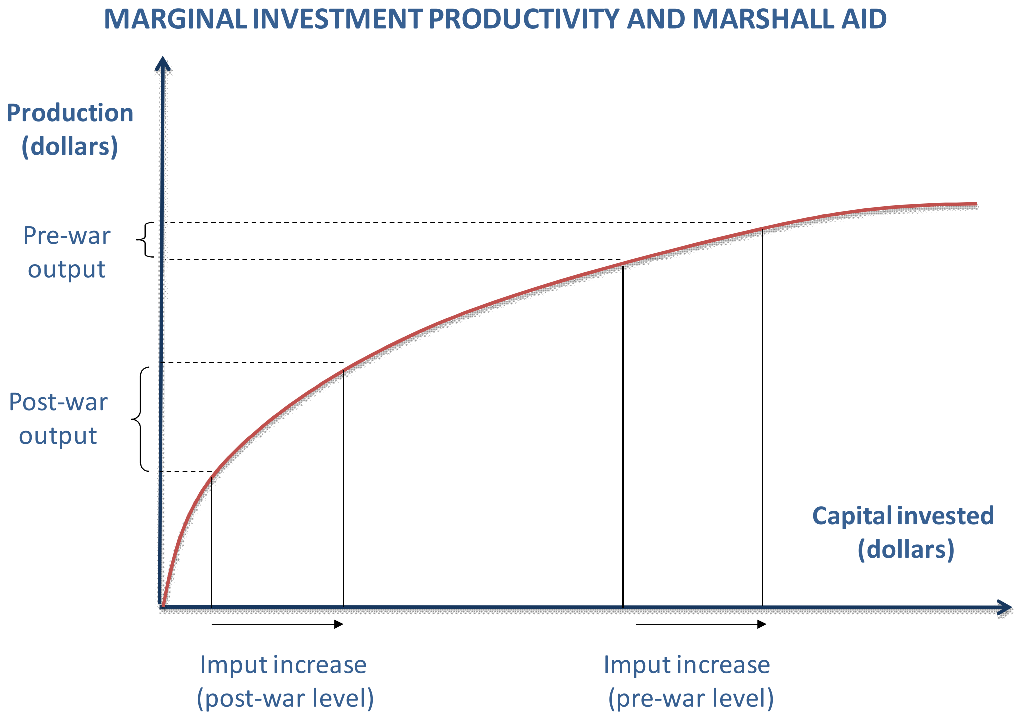
Another big benefit was the relief from strong exchange rate constraints: aid was given in dollar, at that time the strongest value currency to obtain desired imports, and it produced general equilibrium good secondary effects and access to many resource markets. This allowed to import products at higher rate, relieving internal bottlenecks.
Contributing to rebuild trust and stability, Marshall Plan helped also to raise investments by 35%: it was essential, since tax base had been eroded by the war, strongly constraining public

expenditure. Public infrastructures were quickly rebuilt, ensuring viability and connections for newborn industries (De Long and Eichengreen, 1991).

Specifically to some countries, a factor contributing to economic growth and related to the Marshall Plan, although not directly, is the renewal of a more solid "social contract" between governments, workers and employers (De Long and Eichengreen 1991, Comin and Hobijn 2010). While, after First World War, each state tried to maximize its immediate national income, with all subsequent strikes, inflation, coordination problems, here social parties preferred to focus on increasing productivity, to ensure higher living standards later on. Marshall Funds gave incentive to commonly agree on a wage moderation policy, alleviating the labor-market conflict. Such trend could have derived also from the elastic supply of underemployed rural labor, in a period of agricultural shortage, and from memory of unemployment and hardship in the inter-war period they wanted to avoid (De Long and Eichengreen, 1991).

Marshall Plan moreover required a direct government responsibility: recipient countries had to sign a bilateral pact with US, committing to restore and buttress financial stability, exchange rates and balance in budgets. This worked at the same time an incentive tool, since governments had to meet such criteria in their internal stabilization plans, and an enforcement tools, in case some countries did not align. US had indeed a veto power in such cases, impeding countries to divert aid in other uses or cutting it proportionately to the amount diverted. For instance, West Germany had aid suspended until the nationalized railway had revenues that could bring budget balance (De Long and Eichengreen, 1991).

Initial GDP growth rates at the beginning of Marshall Plan were way higher than before, leading some scholars to talk of "super-growth". This is explained thinking of Solow neo-classical growth model, were capital accumulation has diminishing returns on production: capital accumulation jumped back at really low levels, since a huge part got destroyed during the war, and at that value each marginal increase had higher returns on GDP than before the war (Comin and Hobijn, 2010).



Output differentials pre and post-war

Evidence shows that some recipients, such as Germany, after recovery kept having a much faster GDP growth, not converging again to pre-war GDP rates, the so-called "Solow equilibrium". Comin and Hobijn (2010) argue that differences in growth rates were due to differences in the cost of adopting new technologies, so that some countries benefited more than others from US technology transfers and trainees. This meant faster and broader technological adoption, which consequently increased productivity and GDP growth (Comin and Hobijn, 2010). They moreover find that adoption of old technologies decreased in countries which underwent Marshall Plan, while new technologies in such countries increased. Therefore, Marshall Plan is proved to have favored technological progress and abandonment of obsolete instrumentation, towards more productive machinery (Comin and Hobijn, 2010).

5.3.3. Differences with contemporary ODA

Despite being Marshall Plan and ODA somehow resembling (especially considering the latter's programs targeted at African continent), many diverging points can be noticed. I will identify some of them, which could be useful in our analysis of aid impact.

1) *Different strategic reasons*

We can recognize different motives and expectations between US intervention in 1948 and today's ODA to poor countries. Truman and his ministers believe that without a solid functioning political European institutions, trade and markets the international stability would have been at stake, with Soviet advancement looming from East. Europe had a millennial history and was considered to be the head of civilization and progress, together with the advancing US society, and the main US trade partner, so its stability had to be restored not to be harmed in the long term (Easterly, 2006). Strong of a solid bipartisan political support, Truman government devoted to Marshall plan more than 1% of GNP in the years 1948-1952 (De Long and Eichengreen, 1991).

Looking at today's ODA, US has no direct harm in maintaining third world poor, and by off-shoring low cost economic activities it can maintain its economic predominance. It has never been considered the core of modern progress, and its political instability does not undermine US politics. A strong media campaign has been carried on too, but focusing instead on the role of US as a model donor or savior. This patronizing mind-set of exporting western model, instead of providing tools and ensuring good governance practices, so that each country can then auto-determine itself, is evident also in planners 'speeches: «it's up to us», «our generation's challenge», «we will help you build the capacity» (Easterly, 2006).
European donors, on the other hand, are former colonizers of recipient countries: aid is given not to restore a lost cooperation, but built on century of exploitation of natural resources and human capital. Colonial bondage is still relevant, as Alesina and Dollar (2000) show us.

2) *Different implementation*

Marshall Plan was designed to create development to countries previously trade partners to US, according to criteria given by donors and agreed upon with recipients, within some limits. Eastern Bloc countries indeed were offered such aid, but they refused since they did not accept conditions. Today, at the opposite, still some bad-performing institutions receive aid for the sake of fighting poverty, even if some of them persist in maintaining wrong practices (Lockwood, 2005). In Marshall Plan, each state set up with US a country-specific Economic Cooperation Administration, acting as country's development banks and loaning money only to business that met criteria (Hubbard and Duggan, 2009). The belief was the each country could identify better than anyone its internal issues and allocate internal resource in autonomy; as Easterly would say, «the poor are their own best Searchers» (Easterly 2006, p.27). Then, all Marshall recipients had to find a common ground on the subdivision of the commonly pooled funds, tightening reciprocal accountability and responsibility.

Looking at actual aid, things are different. For many years, donors had covered advantage to keep recipients poor and oblige them to buy donor-exported goods, providing overpriced technical assistance (TA). Some scholars claim that actual development aid is just the evolution of old colonialist approach: what was meant as the ‘uncivilized’ has become the ‘underdeveloped’, who was said to be ‘savage people’ have become the ‘third world’. The intention seemed not to lift poor countries from poverty, since that would have meant to recognize their political independence and authority and not being able to exert a control over their policies anymore (Easterly, 2006).

3) Pre-existing development and human capital

In case of the Marshall Plan, all beneficiaries were developed countries, each in different stages, deeply harmed by the war. The following growth process, supported by US funds, aimed to rebuild previous infrastructures and economic activities; thanks to high level of human capital and knowledge, many states were able to reach higher growth rate equilibriums (Comin and Hobijn, 2010). De Long and Eichengreen (1991) even argue that most part of reconstruction was completed by the time the Plan was set on, thanks to UNRRA and the “interim aid”. It mattered mainly through rebuilding trust in market and trade and through giving the incentives for market openness and free trade to be reestablished (De Long Eichengreen, 1991).

Actual ODA, on the other side, is destined to countries with a long colonial past, which have maintained persistent low growth rates since their independence from colonizers. An important branch in literature argues that economic development is strongly linked with the spread and absorption of new techniques and technologies, which ultimately depends on the level of culture and human capital. Among others, Mokyr arguments that technological change, great contributor to economic growth, ultimately depends on what happens to the “useful knowledge”, that is applicable for economic progress. Squicciarini and Voigtlaender (2015) have proved that such useful knowledge, in the case of the Industrial Revolution, was endowed by the upper tail of human capital distribution, that is by the knowledge elites that achieve also upper education, differently from the masses. Mokyr (2013) arguments that the type of education that fosters economic growth differs with the distance of the country from the “world technology frontier”, i.e. the most efficient use of resources developed so far. Developing countries, still distant from development frontier, need to invest in mass education to catch up, while more advanced countries need to develop higher education to push the frontier further (Mokyr, 2013).

At this regard, we find important differences between Marshall recipients and today's recipients. In Europe, in 1940 (just before the war) the literacy rate was 84% in Germany, 85% in Spain, 88% in Belgium, even 95% in the Netherlands (UNESCO Literacy, 2016). Such developed, industrialized and educated nations have been defined as the "convergence club", pulling ahead the rest of the world. Such high levels of mass and upper education allowed them to catch up , to resume their infrastructures and to fill quickly the technological gap respect to US economy (Mokyr, 2013).

Today's developing countries show different figures, with only 52% of them having achieved universal primary education by 2015 (UNESCO, 2015). Actual mean years of schooling is 6.4 in developing and 4.1 in the least developed ones, against 11.8 of highly developed countries. Although much effort has been carried on in many countries to achieve higher rates of primary education, adult literacy and upper education still fail in providing satisfying figures. The rate of gross enrollment in upper secondary education, important in favoring growth and innovation, is on average 35% in the whole Sub-Saharan Africa (UNDP, 2014).

Therefore, European countries had much more developmental levers of human capital to count on, in taking the growth track.

4) *Role of institutions*

What Lockwood (2005) notices is that often, by invoking a sort of Marshall Plan for Africa and pretending to replicate some of its successful features, economists forget the central role that bad performing institutions have in keeping African countries poor. European States coming out from the Second World War had a previous history of political internal stability and maturity, with some older democracies and some younger ones (i.e. Italy, 1861) which still experienced a political consolidation process.

Moreover, all these states were bonded by the common ground value of modernity, established with Enlightenment and with French Revolution. The post-war politics saw a strong democratic shift, where many authoritarian governments ruling during the war were dismantled, so that all states that agreed upon the Plan conditions shared common democratic values. Spain, were Francisco Franco had established his dictatorship in 1939, was excluded from Marshall Plan, in the same way that Soviet Union and satellites refused to undergo the program (Lockwood, 2005).

In African countries the story is completely different: having a long history as former colonies from 16th century until 1940s (with 1941's Atlantic Charter) and 1950s, the majority still lacks a solid democracy and has weak and corrupted governance, which is proven to reinforce poverty (Easterly, 2006). Many of these countries' borders were arbitrarily defined by European states in a series of Congress meetings held between 1880 and the First World War, to pursue their imperialist commercial interests: the so called 'scramble for Africa'. Such newborn fragile states did not undergo the long historical process of national identity development that all European states had, generating big fragilities since the beginning, and giving a chance for European dominators to develop a new form of more subtle commercial dependence: the New Imperialism (Easterly, 2006).

5) *Temporary tool with exit strategy*

Marshall plan was designed as a temporary development tool, with an established built-in exit and incentives for independence. It was indeed designed to last between 1947 and 1951 and the 13 billion dollars given consisted of grants, with no concessional loans: a temporary and exceptional opportunity to take advantage of (Brautigam and Knack, 2004).

All European recipients were aware that such funds, being tied to restore financial stability and to relax investment constraints, were limited to a short period; thus they committed to maximize the benefits obtainable. Current ODA is differently structured and based on performance indicators, with the risk of granting endless aid to the same countries, without holding their governments responsible to implement an effective developmental plan within a certain timeframe (Brautigam and Knack, 2004).

Brautigam and Knack (2004) argument that to help countries to graduate from poverty, especially for HIPC (Heavily Indebted Poor Countries), some measures of debt relief are necessary, to avoid poorest countries to carry unbearable burdens that will always impede a development twist. This would allow both donors and recipients to agree on concessional loans over 10-20 year period, to be invested in specific targets and paired with a set of reforms to implement. Today, even imagining a temporary tool for ODA, timing would need to be longer than Marshall's years, since the level of human capital, economic development and persistency of social issues are way worse than in after-war Europe. Brautigam and Knack (2004) suggest a time frame of 40 years.

6. Policy recommendations and perspectives

As we have seen, no absolute verification on aid effectiveness has been made so far; many critics have pointed out structural drawbacks of ODA, making what is today called “aid debate”. Many different econometrics models have been developed, leading in some cases to disputable results that depend on the metrics and configurations used, making the dilemma over ODA even more articulated. In my opinion, it is important for international organisms such as World Bank, UN and OECD to question programs actually implemented and to concert together a unified new approach to ODA, spending more time on testing effectiveness of single intervention and not expecting to apply the same strategy to all specific country cases. New emphasis should be put to innovative financing tools for development, that are new approaches for pooling private and public revenue streams, new revenue streams themselves, and new incentives and mechanisms to address market failures. More and more these new devices, such as vertical funds, FDI and specific aid bonds, can complement ODA in times of increased resource constraints. In the re-designing process, ODA should aim to go beyond GDP growth and adopt a multi-target strategy, understanding that development has many determinants to be considered.

Looking at the two country cases, we see how foreign aid in order to be effective needs a ground of solid democratic institutions in recipient countries: both confirm the third hypothesis that recipients policies have a crucial role in determining aid outcomes, and cannot be ignored (Acemoglu, Johnson and Robinson, 2002). The conditional effectiveness of aid is gaining importance in donors decisions, particularly with World Bank’s Performance Based Allocation (PBA) system. In general, donor countries, agencies and policymakers have recognized the crucial implication that aid should be distributed selectively to well-performing countries in respect to policies.

Establishing good governments often comes after a gained independence and auto-sufficiency of the country, as in Botswana case, where colonial presence has not been to pressing and has allowed to preserve an integrated and pluralistic society, which can be a credible counterpart in ODA reception. In other cases, such in the Somali one, detrimental governments left alone can only worsen the country’s condition. The challenge of today ODA, indeed, is to find the proper balance between respecting each country’s self-determination and intervening where needed, by enforcing policy conditionality on aid. Intervention in countries’ policy making cannot be however a top-down, paternalistic action and with the presumption to have better understanding of the country’s specifics. A cooperative work should be done between donors

and recipients, to define ”from inside” proper solutions, feasible by the recipient country and which can make it autonomous in the future.
In case of recipient country’s non-cooperation, the debate is open upon whether donors should refuse to provide aid, enforcing conditionality and punishing the authoritarian or corrupted government, or if they should intervene anyway, for the sake of combating poverty and provide support to the poorest who have no voice in determining their government’s choice. In my opinion, DAC countries should intervene using proper means which do not provide financial means to the government, but targeting at needs; this could be made by avoiding official support through bilateral or multilateral channel, and by using vertical funds or new forms of public and private partnerships (PPP) instead.

Moving forward, also Marshall Plan leads to some valuable considerations. It shows the importance of building accountable and structured organisms that concert aid distribution among a group of countries tied by similar socio-political and economical conditions. Specifically, the OEEC had the essential duty of portioning aid flow among European countries based on agreed plans, of ensuring a reciprocal check on investment choices and, at the same time, to align economic policies and reform, towards an integrated Europe. Results of this path is the OECD organism, still existing today to tackle economic and political challenges through country cooperation.
As the Marshall Plan did with the EPU and the multilateral approach, also DAC countries should set the ambitious goal of favoring economic empowerment and set-on of commercial networks, to help poor countries to definitely lift from poverty. This can be made by investing ODA funds in developing local human capital and expertise, by adopting more favorable trade tariffs and some sort of financial support, to sustain the creation of a prosper private sector. Some calls of this sort have already been made, as Gordon Brown in 2005 asking for a “Marshall Plan in Africa” with a structured plan, “Make Poverty History”; still the focus was on big results and not on testing on the ground the most effective intervention, with a Searcher approach (Duflo, 2011 and Easterly, 2006). I’m confident that actual financial restriction in national budget will favor such renovation process, towards a more and more effective aid.

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